

THE LEONARD LETTER

A weekly electronic newsletter

Bill Leonard, Member

State Board of Equalization

January 26, 2004

"The free-thinking of one age is the common sense of the next."

-- Matthew Arnold (1822-1887)

ON THE ROAD

*****CMTA Panel Discussion*****

Last Tuesday, I was pleased to sit on a panel at the California Manufacturers & Technology Association symposium on tax policy. The topic for the panel was whether to tweak or completely overhaul our tax system. I expressed my preference to tweak because I think it very likely that an overhaul of our tax system at a time when we have a record deficit would likely result in higher taxes disguised as reform.

I repeated a point I raised in a legislative committee last summer. The legislature should adopt both a projected revenue number and a means of calculating the tax burden on the economy. Evidence shows that when general fund expenditures exceed 6.2% of the state's personal income, the state's economy suffers. In the recession years of 2000-01, general fund expenditures rose to 7.1 percent of personal income.

I also made the case for the state not to raise the sales tax. Most of the existing local government half-cent sales tax measures for essential transportation are expiring and will need to be readopted by a supermajority of voters. Even a half-cent increase by the legislature could jeopardize the renewal of these taxes on the local level.

I was surprised to hear a fellow panel member advocate for broadening the sales tax to include some services. I think this could be a very harmful path for our economy. Some might want to use this tax to punish certain industries, like lawyers for instance. The consequence of such an action could be that lawyers move to Nevada and simply email their briefs to clients in California. Thus, we lose the attorneys' income tax contributions. If you wonder why we should not just make all services subject to sales tax, consider whether you really want to pay sales tax for people planting crops, fixing your car (currently only parts are taxable), construction, transportation, medical services, banking services, accounting, architects, and on and on.

My philosophy is this: the more money that people are allowed to keep, the more efficient the economy is and the better off everyone will be. This is why I will continue to resist expanding the base of the sales tax, or increasing taxes generally.

UNDER THE DOME

*****Smart Divesting*****

I have written before about the 194 million square feet of structural space in 22,000 buildings and 2.5 million acres of property that the state government owns. Some of this property has already been identified as surplus, but frankly, much more of it could easily be freed from government monopoly, both generating revenue for our cash-strapped coffers and reducing future maintenance costs. However, undertaking such a property sale is challenging in a political environment where “bringing home the bacon” is rewarded by local media and voters. I certainly ran into this problem when as a legislator I proposed that the state sell San Quentin prison. The facility is old, in need of expensive repairs and it sits on some of the state’s choicest real estate. The state would reap a grand profit from its sale and save even more money in the long run by not having to operate such an old facility. Despite the dramatic cost savings potential of this idea, some legislators who represented the Bay Area opposed the concept.

To overcome this obstacle, California should take a page out of the federal government playbook and copy how the military base closures were handled. It would have been impossible for any member of Congress to vote to close a base in his or her own district, no matter how much objective financial and military sense it made. Given that political challenge, the Base Realignment and Closure commission model worked. An independent panel appointed by the president studied the bases using a list of factors including cost savings, environmental and economic impacts, community support, and manpower implications. The president then had two weeks to review the list. The key was that Congress could have voted to reject the whole list, but it did not have to vote to accept the list.

I recommend this same process be used in California as developed by experts at the REASON Foundation. An Asset Review and Divestiture Commission could be appointed by the governor and could evaluate the state’s real estate holdings using criteria, including relationship to the government’s core purpose, economic impacts, cost savings, etc. To reject the list would require a vote of both houses in the legislature, and no item could be severed from the list. The list would give the Department of General Services the authority to begin selling assets. This process would help California deliver services more efficiently and spend taxpayer money more wisely.

*****California’s Bad Grades*****

CFO Magazine recently released a survey of corporate tax officials' views about the taxing agencies in various states. (See [http://www.cfo.com/article/1,5309,11645\[38|M|786\].00.html](http://www.cfo.com/article/1,5309,11645[38|M|786].00.html)) Not surprisingly, California did not make a good showing, as many of you who have to pay taxes or deal with state agencies already know.

When asked how states' revenue-department policies and systems influence companies' decisions to locate or expand there, the least desirable state was New Jersey. California was next.

When asked to rate the independence of this state's administrative appeals process-- tax board, administrative law judge, or tax court-- from its audit department, respondents said Pennsylvania was the least independent, followed by Massachusetts and then California.

Another question was about "gray areas" at the auditor level and asked which states' auditors are the most unfair or least able to avoid escalation of these issues. Again, New Jersey was the worst and California was next.

When asked which states are most aggressive about asserting nexus positions for corporate income tax over corporations with only an economic presence in the state, the rankings were: 1. New Jersey; 2. Massachusetts; 3. New York; 4. California.

California was ranked as having the legislature most likely to eliminate or reduce existing business tax incentives this year, and was also listed as the most aggressive at assessing additional tax based several factors as well as the state most likely to pursue clawbacks of individual company incentives this year.

*****The Cost to Tax*****

One of my goals as a member of the Board of Equalization is to make sure that our tax programs run efficiently. A look at the Board's 2001-02 Annual Report indicates some areas where our costs for collecting the tax are just too high. The total costs of the Board as a percent of revenue were .77%. The natural gas surcharge tax had the lowest costs at .07% and the timber tax was at the high end at 13.08%. Given that excessive percentage, I believe the timber tax should be abolished. Much commercial logging has left California, and the total receipts from the timber yield tax were only about \$15.0 million in 2001-02, down from about \$25.6 million the prior year, or about .037% of 2001-02 BOE receipts. This is an extremely expensive tax that yields little revenue and is likely to worsen in performance.

The four largest tax programs administered by the Board had cost percentages as follows: Sales and Use Tax .76%; Motor Vehicle Fuels Tax .63%; State Assessed Property Taxes .94%; and Cigarette Tax .77%. The Franchise Tax Board spends approximately .76% to collect the personal income tax, but then more than doubles that to 1.96% for corporate income taxes. Clearly, the costs for collecting the corporate tax are out of line and should be reviewed.

MISCELLANY

Calling All Interns

Throughout my public career, I have had the opportunity to work with and mentor many young people who have served as interns in my office. While many students seek out internship opportunities with legislators, I would like to offer internship opportunities in my Board of Equalization district office in Sacramento. Any academic major is welcome and individuals should have an interest in learning about the political process. Interns will perform regular office duties and conduct special projects on tax and legislative issues. Anyone interested in being considered should send a resume and writing sample to me at bill.leonard@billleonard.org.

The Final Four Words to Know

Each week, the Leonard Letter features a few of the words from a list of 100 words that some educators say every high school student should know. The full list may be viewed at http://www.houghtonmifflinbooks.com/booksellers/press_release/100words/.

97. Wrought (p.t. of work) --- now used to signify “work” in particular senses: fashioned, ornamented, shaped by tools: *The state budget will be wrought in many late night negotiating sessions over the next several months.*

98. Xenophobe (n) --- A person unduly fearful or contemptuous of that which is foreign, especially of strangers or foreign peoples: *Many Californians are concerned about the economic consequences of illegal immigration, but others are just xenophobic.*

99. Yeoman (n) --- An attendant, servant, or lesser official in a royal or noble household; a petty officer performing chiefly clerical duties in the U.S. Navy; a diligent, dependable worker: *To whoever is willing to perform yeoman work on the budget will be given the credit for setting our fiscal priorities.*

100. Ziggurat (n) --- A temple tower of the ancient Assyrians and Babylonians, having the form of a terraced pyramid of successively receding stories: *There is actually a ziggurat in Sacramento now owned by the California Department of General Services, but I doubt if it is a temple to state government.*

BOE AND LEGISLATIVE DATES

January 27, 2004 --- BoE meets in Sacramento.

January 31, 2004 --- Last day for bills introduced in 2003 to pass their house of origin.

February 20, 2004 --- Last day to introduce bills this session.

March 2, 2004 --- California primary election

NOTABLE DATES/ HISTORY

January 26, 1783 --- Hostilities cease in Revolutionary War

January 26, 1945 --- Frankling D. Roosevelt sworn-in for an unprecedented fourth term as President

January 27, 1870 --- After accepting 15th amendment, Virginia is readmitted to Union

January 28, 1986 --- NASA space shuttle Challenger explodes 73 seconds after liftoff from Cape Canaveral, FL, killing all seven crewmembers aboard.

January 29, 1834 --- President Jackson orders 1st use of US troops to suppress a labor dispute

January 30, 1815 --- Burned Library of Congress reestablished with Jefferson's 6500 volumes

January 30, 1862 --- U.S. Navy's first ironclad warship (Monitor) launched

January 31, 1863 ---First black Civil War regiment, SC Volunteers, mustered into US army

January 31, 1865 --- Congress passes 13th Amendment, abolishing slavery in America (121-24)

February 1, 1790 --- Supreme Court convenes for the first time (New York NY)

GENERAL TAX INFORMATION

For answers to your general tax questions, call the Board of Equalization information center. Customer service representatives are available to help you from 8:00 a.m. to 5:00 p.m. Pacific time, Monday through Friday (except state holidays).

Toll-free number: 800-400-7115

TDD service for the hearing impaired
TDD phones: 800-735-2929

Voice phones: 800-735-2922

HOW TO CONTACT ME

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